Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Financial Report

June 30, 2008

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Contents

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Independent Auditor's Report

To the Honorable Mayor, Members of City Council,
and Commissioners of the
Board of Water and Light
City of Lansing, Michigan

We have audited the accompanying statement of trust net assets of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan") as of June 30, 2008 and 2007 and the related statement of changes in trust net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for benefits of the Plan as of June 30, 2008 and 2007 and the changes in trust net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 11, 2008

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior two years:

	2008	2007	2006
Assets held in trust:			
Corporate bonds and notes	$ 8,881,951	$ 9,959,985	$ 14,566,198
Preferred stock	3,052,380	2,032,082	550,000
Mutual funds	41,765,817	40,652,272	26,514,398
Money market collective trust fund	8,070,347	8,298,199	1,995,539
Interest and dividend receivable	116,965	124,515	238,634
Total plan assets	**$ 61,887,460**	**$ 61,067,053**	**$ 43,864,769**
Changes in plan assets:			
Net investment income	$ (5,915,132)	$ 6,837,691	$ 2,287,753
Employer and participant contributions	6,735,539	10,364,593	10,216,312
Net change in plan assets	**$ 820,407**	**$ 17,202,284**	**$ 12,504,065**

During fiscal year 2008, net investment income was a negative $5.9 million due to the decline of the stock market as a whole. We believe this performance is in line with the normal volatility experienced by the stock and bond markets.

The employer contributions were down by $3.6 million due to the decrease in the BWL's Annual Required Contribution (ARC) as determined by the BWL's actuary.

Investment Objectives and Asset Allocation

The Plan's assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Plan, the BWL has taken into account the time horizon available for investment, the nature of the Plan's cash flows and liabilities, and other factors that affect the Plan's risk tolerance. Consistent with this, the BWL has determined that the investment objective is income and growth. This investment objective is a risk-averse balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long term.

Investment Results

The fiscal year ended June 30, 2008 saw negative net investment income due to the decline of the stock market as a whole. We believe this is in line with the normal volatility experienced by the stock market.

Other Changes in Plan Assets

In fiscal year 2008, the BWL issued a request for proposals (RFP) for an investment advisor for the Retiree Benefit Plan and Trust. After reviewing the submitted proposals, the BWL chose the Institutional Consulting Group of Merrill Lynch & Co., Inc. as its new investment advisor, effective for fiscal year 2009.

Consistent with the advice of the new investment advisor, the BWL has selected a new asset allocation strategy. The target asset allocation is:

Domestic large capitalization stocks	43.2%
Domestic small capitalization stocks	10.0%
International stocks	10.7%
U.S. core fixed income	31.1%
Private equity	5.0%

Future Events

The Plan expects to receive annual contributions of approximately $10,000,000. The BWL is funding its other postemployment benefits (OPEBs) and is intending to meet its annual required contributions (ARC) in part by making contributions into the VEBA Trust Fund.

Contacting the Plan's Management

This financial report is intended to provide a general overview of the Plan's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office of Susan Devon, Chief Financial Officer and Executive Director of Administration at P.O. Box 13007, Lansing, Michigan 48901-3007.

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Trust Net Assets

	June 30 2008	June 30 2007
Assets		
Investments - Fair value:		
Corporate bonds and notes:		
Goldman SACHS bond, 5.625%, maturing January 15, 2017	$ 463,280	$ 479,205
GTE Corp bond, 8.75%, maturing November 1, 2021	1,151,510	1,186,230
Union Carbide Corp bond, 7.875%, maturing April 1, 2023	499,260	529,790
Northern States Power Co. bond, 6.5%, maturing March 1, 2028	681,134	679,486
Burlington Resources bond, 7.375%, maturing March 1, 2029	865,253	846,405
GE Global Insurance bond, 7.75%, maturing June 15, 2030	1,084,750	1,148,070
Verizon Global bond, 7.75%, maturing December 1, 2030	1,074,280	1,120,160
CHUBBS Corp. bond, 6.8%, maturing November 15, 2031	1,019,950	1,059,160
CitiGroup Inc. bond, 6.625%, maturing June 15, 2032	872,484	996,009
CitiGroup Inc. bond, 6.0%, maturing October 31, 2033	839,730	962,820
AMBAC Finl Group Inc. bond, 5.95%, maturing December 5, 2035	330,320	952,650
Preferred stock:		
AEGON NV Stock, PFD, 6.875%	397,980	555,280
BAC CAP XII Stock, PFD, 6.875%,	438,000	512,402
Citigroup Cap XVII Stock, PFD, 6.35%,	357,400	480,800
Morgan Stanley Cap TR VIII Stock, PFD, 6.45%,	366,200	483,600
Citigroup Cap XIX Stock, PFD, 7.25%,	846,400	-
Fifth Third CAP TR VI Stock, PFD, 7.25%,	646,400	-
Mutual funds:		
Evergreen Equity Index Fund	9,010,677	10,435,112
Ishares MSCI EAFE Index Fund	6,672,735	7,652,274
Ishares Russell Midcap Index Fund	3,607,218	4,049,953
Ishares TR-Russell 2000 Index Fund	5,878,696	6,996,481
Ishares TR-Russell 1000 Index Fund	6,220,598	7,088,328
Ishares TR-S S & P 500 Index Fund	2,502,811	-
Ishares Lehman TR Aggregate Bond Fund	7,873,082	4,430,124
Comerica money market collective trust fund	8,070,347	8,298,199
Total investments at fair value	61,770,495	60,942,538
Investment interest and dividend receivable	116,965	124,515
Trust Net Assets	**$ 61,887,460**	**$ 61,067,053**

Lansing Board of Water and Light
Retiree Benefit Plan and Trust

Statement of Changes in Trust Net Assets

	Year Ended June 30	
	2008	2007
Additions		
Contributions	$ 6,735,539	$ 10,364,593
Investment income - Appreciation (depreciation) in fair value of investments:		
Corporate bonds and notes	(1,078,034)	84,247
Mutual funds	(979,702)	5,156,657
Preferred stock	(5,828,138)	(17,918)
Total appreciation (depreciation) in fair value of investments	(7,885,874)	5,222,986
Interest and dividend income	1,970,742	1,614,705
Total investment (loss) income	(5,915,132)	6,837,691
Net Increase in Trust Net Assets	820,407	17,202,284
Net Assets		
Beginning of year	61,067,053	43,864,769
End of year	**$ 61,887,460**	**$ 61,067,053**

See Notes to Financial Statements.

Note 1 - Description of the Plan

The following description of the Lansing Board of Water and Light Retiree Benefit Plan and Trust (the "Plan"), a trust fund of the Board of Water and Light - City of Lansing, Michigan (the "BWL"), provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General - The Plan was established on October 20, 1999, effective as of July 1, 1999, to constitute a voluntary employees beneficiary association (VEBA) under Section 501(c)(9) of the Internal Revenue Code of 1986, as amended. The Plan was formed for the purpose of accumulating assets sufficient to fund retiree healthcare insurance costs in future years.

The Plan is a single-employer defined benefit healthcare plan. The Plan provides medical, dental, and life insurance benefits in accordance with Section 5-203 of the City Charter. Substantially all of the BWL's employees may become eligible for healthcare benefits and life insurance benefits if they reach normal retirement age while working for the BWL. There were 686 participants eligible to receive benefits at June 30, 2008 and 669 participants eligible at June 30, 2007.

During the years ended June 30, 2008 and 2007, the BWL contributed $6,735,539 and $10,364,593, respectively, to the VEBA trust. For the year ended June 30, 2008, the total cost of providing such benefits was $8,226,252, of which $1,661,708 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by the BWL. For the year ended June 30, 2007, the total cost of providing such benefits was $7,799,118, of which $5,517,993 was funded by the Defined Benefit Plan of the BWL, and the remainder was funded by the BWL.

Benefits - Benefits shall not be paid from this Plan to participants or their beneficiaries during a plan year in which there has been a "qualified transfer" pursuant to Internal Revenue Code Section 420(e)(1)(8) from the Lansing Board of Water and Light Defined Benefit Plan for the Employees' Pensions, except that once the "qualified transfer" has been exhausted for the purpose of paying qualified current retiree health liabilities, benefit payments may be made under this Plan consistent with Internal Revenue Code Section 420(e)(1)(B). After "qualified transfers" have been exhausted, benefits paid under this Plan shall be those benefits described in the relevant sections of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light.

Note 1 - Description of the Plan (Continued)

Trustees - Each member of the Lansing Board of Water and Light Board of Commissioners is a trustee during the term of office as a commissioner. The trustees have appointed Comerica Bank and Wachovia Securities Incorporated as custodians of the Plan's assets.

Contributions - The Lansing Board of Water and Light makes contributions in such a manner and at such times as appropriate. All contributions received, together with the income thereon, are held, invested, reinvested, and administered by the trustees pursuant to the terms of the plan agreement. No employee contributions are allowed under this Plan. Contributions are recognized when the amount to be contributed is committed by the BWL.

Participation - Participation in this Plan is determined in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of the Lansing Board of Water and Light. At June 30, 2008, there were 725 active participants (not eligible to receive benefits), 93 disabled participants, 445 retired participants, 357 active or retiree spouses (not eligible to receive benefits), and 148 surviving spouses participating in the Plan.

Vesting - Benefits become payable in accordance with the terms of the Postretirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light. At no time will benefits of the Postretirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light be vested. The BWL may reduce or eliminate any or all plan benefits at any time, subject to the requirements of any collective bargaining agreement.

Termination - In the event of plan termination, all plan assets shall be used to purchase additional eligible benefits in accordance with the terms of the plan agreement. In the event of dissolution, merger, consolidation, or reorganization of the BWL, the Plan shall terminate and liquidate in a manner consistent with the plan agreement unless the Plan is continued by a successor to the BWL.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Plan's financial statements are prepared using the accrual basis of accounting.

Investment Valuation and Income Recognition - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

Purchases and sales of investments are recorded on a trade-date basis.

Appreciation or depreciation of investments is calculated based on the beginning of the period's fair value of investments.

Expenses - Substantially all costs and expenses incurred in connection with the operation and administration of the Plan are paid by the BWL, the plan sponsor. The Plan pays all transaction expenses incurred in connection with the investment accounts, which are netted with investment income.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Funding Policy - The board adopted a process for funding the retiree benefits using both a VEBA trust and, to the extent permitted by law, excess pension assets in the Defined Benefit Pension Plan. Additional contributions to the VEBA trust from BWL operating funds to supplement Section 420 transfers will not exceed the recommended annual contribution amount required to cover current service of active participants and amortize the unfunded accrued liability over 30 years. The required contribution is based on a projected pay-as-you-go financing requirement with an additional amount to prefund benefits.

The board's annual other postemployement benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Note 2 - Summary of Significant Accounting Policies (Continued)

Contribution trend information is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contributed	Percentage of Annual OPEB Cost Contributed
6/30/2006	$ 17,265	$ 17,265	100%
6/30/2007	17,867	18,090	101%
6/30/2008	14,797	14,797	100%

Funded Status and Funding Progress - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 7.5 percent, compounded annually, (b) projected salary increases ranging from 5.0 percent to 11.0 percent, depending on age, and (c) amortization method level dollar over a 30-year period.

Funding status and funding progress trend information is as follows (dollar amounts in thousands):

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2/28/2006	$ 37,664	$ 216,161	$ 178,497	17.40%
2/28/2007	52,335	198,005	145,670	26.43%
2/28/2008	57,246	236,102	178,856	24.25%

Actuarial Assumptions - The Plan has calculated the accrued actuarial liability and required contribution using certain methods and assumptions. Benefit payments have been computed using the individual entry age normal method. The assets have been valued in the actuary report using the fair market value. The healthcare cost trend rates used are approximately 6.98 percent and 7.25 percent for the years ended June 30, 2008 and 2007, respectively.

Note 3 - Cash, Investments, and Fair Disclosure

The Lansing Board of Water and Light Retiree Benefit Plan and Trust has adopted GASB No. 40, *Deposit and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Plan is authorized through Public Act 149 of 1999 to invest in accordance with Public Act 314. Public Act 314 of 1965, as amended, which allows the Plan to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Plan's deposits and investment policies are in accordance with statutory authority.

The Plan's cash and investments are subject to several types of risk, which are examined in more detail below:

<u>Risks at June 30, 2008</u>

Custodial Credit Risk of Bank Deposits

At the end of the year, the Plan has no bank deposits.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are, therefore, not subject to custodial credit risk.

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Mutual funds	$ 7,873,082	Less than 1 year
Corporate bonds	8,881,951	20.29 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 7,873,082	Not rated	Not rated
Corporate bonds	2,175,494	A+	S&P
Corporate bonds	6,207,197	A	S&P
Corporate bonds	499,260	BBB-	S&P

Concentration of Credit Risk

The BWL places no limit on the amount the Plan may invest in any one issuer.

Foreign Currency Risk

At year end, the Plan was not subject to foreign currency risk.

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Risks at June 30, 2007

Custodial Credit Risk of Bank Deposits

At the end of the year, the Plan has no bank deposits.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy for custodial credit risk. At year end, all investments of the Plan were held in the name of the Board of Water and Light and are, therefore, not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Mutual funds	$ 4,430,124	Less than 1 year
Corporate bonds	9,959,985	21.1 years

Note 3 - Cash, Investments, and Fair Disclosure (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual funds	$ 4,430,124	Not rated	Not rated
Corporate bonds	479,205	A+	S&P
Corporate bonds	4,513,620	A	S&P
Corporate bonds	1,525,891	A-	S&P
Corporate bonds	952,650	AA	S&P
Corporate bonds	1,958,829	AA-	S&P
Corporate bonds	529,790	BBB-	S&P

Concentration of Credit Risk

The BWL places no limit on the amount the Plan may invest in any one issuer.

Foreign Currency Risk

The Plan holds no investments in foreign entities, currency, or debt.

Note 4 - Tax Status

The Plan is exempt under Internal Revenue Code Section 501(c)(9) and received an exemption letter as of February 9, 2000. The Plan has since been amended. Management believes the Plan continues to operate as a qualified plan. Therefore, no provision for income taxes has been included in the Plan's financial statements.